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The European Community: A Canadian Perspective

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Introduction

The European Community (EC) is a group of 12 democratic Western European nations that co-operate closely, especially in economic matters. It is a common market where goods travel across the national borders of member states tariff-free. Goods from outside the common market, on the other hand, are charged a common tariff rate.

Since its beginnings over three decades ago, the EC has evolved into much more than a common market. European Community legislation regulates many sectors of the economy, such as coal and steel, agriculture, transport and fishing. The Community establishes standards for everything from manufactured products to drinking-water quality and complements the programs of national governments in research and development, regional development, education and many other areas. Furthermore, the EC is unlike other international organizations such as the United Nations in that its members are bound by Community law.

The 12 EC member states are Belgium, Denmark, France, Germany (West), Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom.

The EC is the world's largest trading bloc of nations, accounting for almost one-fifth of world trade and for 25 per cent of global gross domestic product (GDP) (estimated in 1988 to be $5.4 trillion). The European Community is Canada's second-largest partner for trade, investment, technology and tourism. In 1988, Canadians bought over $16 billion worth of EC goods and exported $11 billion worth to EC countries. The European Community's direct investment in Canada exceeds $23 billion, while Canadian investment in the

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EC surpasses $9 billion. EC trade policies can therefore have a significant impact on the Canadian economy.

Canada's interest in the EC goes beyond its importance as a trading partner. Western Europe has been a major source of immigrants to Canada since Confederation. The skills these immigrants have brought to Canada have enhanced the wealth of the nation, while their varied ethnic backgrounds have profoundly enriched the Canadian cultural mosaic.

These links, both in culture and in trade, have created in Canada a special interest in the affairs of the member states of the European Community and an interest in what role the European Community plays in Western European affairs.

Formation and Evolution

The European Community of today is actually an amalgamation of three communities: the European Economic Community (EEC); the European Coal and Steel Community (ECSC); and the European Atomic Energy Community (Euratom). These organizations were born out of the anxieties that followed World War II. The countries of Western Europe were uncertain of the Soviet presence in Eastern Europe, and they were equally concerned about Western Europe's future stability. The best solution seemed to be to integrate the economies of the Western European nations so that armed conflict between them would become impractical.

Six nations — Belgium, France, Germany, Italy, Luxembourg and the Netherlands — formally established the first community, the European Coal and Steel Community, in 1951. Britain was asked to join but opted not to. The ECSC abolished customs barriers in the two basic industries of coal and steel and established a High Authority to supervise production. As a result, internal trade in steel climbed 129 per cent in the first five years.

Encouraged by this success, the same six countries signed the Treaty of Rome in 1957, establishing the European Economic Community. At the same time they signed another treaty establishing Euratom.

With the Treaty of Rome launching a new era of economic co-operation in Europe, a timetable was set for removing tariffs for goods travelling across Community borders. The members further pledged to progressively harmonize their economic activities.

No one can dispute the immediate results. Trade between Community member states leapt by close to 30 per cent annually between 1958 and 1968, compared to an annual increase of 10 per cent in imports from other countries. All internal tariffs were removed by July 1, 1968, 18 months ahead of schedule. At that time, a common external tariff came into effect, replacing the various tariff levels each member had once applied.

Economic success led other countries to petition to join. The U.K. applied as well, but successive vetoes by French President de Gaulle kept Britain out until 1972. Ireland and Denmark also joined in 1972. A referendum in Norway narrowly rejected that country's bid for membership.

In recognition of the increasingly important role of the European Community, particularly in external trade, Canada established a mission to the EC at its headquarters in Brussels in 1973. The European Community reciprocated in 1976, opening a delegation office in Ottawa.

The 1970s proved to be as difficult for the European Community as for the rest of the industrialized world. Though membership had increased from six to nine countries, and the population of the EC's internal market from 190 to 255 million, the economic recession that followed Organization of Petroleum Exporting Countries (OPEC) oil-price hikes created a host of problems. The ranks of the unemployed swelled to 16 million. The member states could not agree on a common

energy policy or a common economic policy to deal with mounting deficits and high inflation. And a major dispute over the British contribution to the EC budget replaced discussion of other pressing issues.

In the late 1970s, in response to the economic situation, the EC established the European Monetary System, which required member state governments to keep their currency rates within a narrow bond. The monetary system is credited with helping to curb exchange-rate fluctuations that had led to uncertainty in financial markets, and with encouraging member states to co-operatively establish financial policies.

It wasn't until the mid-1980s, however, that major initiatives were introduced to move the EC ahead once more. A revision to the Treaty of Rome, called the Single European Act, made it more difficult for one or two members to veto the Community's plans. As well, the Community decided to complete the removal of remaining physical, technical and fiscal "non-tariff" barriers that had kept the common market from being as open as the name implied. "Europe 1992," as the process has been called, promises to make the EC a truly single market by 1992. The European Community, which gained three new members in the 1980s — Greece in 1981, Spain and Portugal in 1986 — is well on its way to becoming the largest integrated market in the world.

The Institutions

The European Community operates through four principal institutions: the Commission, the Council of Ministers, the European Parliament and the Court of Justice.

As the executive arm of the European Community, the **Commission** is sometimes referred to as the EC's "engine" because it proposes the regulations and directives that, along with the treaties, make up Community law. The Commission ensures that the common market is running properly and that it has the power to enforce community law where it is being breached.

The Commission is headed by 17 commissioners, 2 from each of the larger states (Germany, France, Britain, Italy and Spain) and 1 from each of the smaller member countries (in effect a "Cabinet"). Commissioners are "Europeans" first and foremost: though they are nominated by their national governments, they are obliged to carry out their duties to the European Community with complete independence.

The Commission president is appointed to a two-year term, though this is almost always extended to four years. Other commissioners are appointed to four-year terms.

The Commission's services are based in Brussels and employ about 11 000. Its staff provides many services in addition to the vital role of policy formulation — from translating documents between the nine official languages of the Community, to doing research at one of the Commission's scientific research centres, to producing European Community statistics.

The **Council of Ministers** has the legislative power to adopt Community legislation proposed by the Commission. Until adopted by Council, a measure does not become community law binding on all the member states.

The Council is made up of representatives from each member state, usually government ministers, and therefore reflects the varying attitudes and priorities of the national governments. The faces around the table change depending on the subject the Council is discussing: for budgetary discussions, finance ministers will meet; for agriculture, agricultural ministers will meet; and so forth.

While "very important" legislation requires the unanimous approval of the Council, the Single European Act of 1986 limited the number of issues requiring unanimity. This action was taken in an attempt to speed the work of the Commission. More of the Commission's legislation

can now be passed with a qualified majority (about 70 per cent approval).

The heads of government meet twice yearly for two days of informal talks in what have become known as European councils, or summits. Meetings of this sort began in the 1970s and were formally acknowledged in the Single European Act amendments of 1986. The European Council allows the leaders of the member states to speak frankly and resolve conflicts that their ministers may have failed to resolve.

A third EC institution is the **European Parliament**. It is composed of 518 members elected in Europe-wide elections every five years and is the only EC institution where members are elected through direct universal suffrage. In other respects, however, it is very different from a parliament such as Canada's as it is primarily an advisory body without the power to introduce or implement new legislation. Nor does it have the power of the Council of Ministers to veto legislation it does not like.

The European Parliament serves three main functions:

- It gives its opinion on proposed legislation to the Commission and Council of Ministers (in some cases its opinion must be sought, though its advice does not need to be taken); it may propose amendments, which in certain cases can only be ignored by unanimous vote in Council.
- It plays a role in establishing the Community budget, and can either pass or reject it.
- It brings a measure of democratic control to the European Community by submitting questions to the Council or Commission to which they must respond.

In theory, Parliament can dismiss the Commission, but this power has remained untested.

The **Court of Justice** is the court to which the Commission, the member states, companies or individuals appeal if they have a grievance about how Community law is being applied. It consists of 13 judges and six advocates-general. The Court's jurisdiction is limited to European Community law and therefore decisions of the supreme courts of national governments cannot be appealed to it (unless these involve interpretations of Community law).

A fifth EC institution, the **Economic and Social Committee**, is consulted by the Commission and Council of Ministers on a wide range of issues. The influence of this committee, whose members represent interest groups such as labour, teachers and farmers, could grow, particularly as the Community attempts to grapple with the social dimension of 1992.

Revenues to operate all these institutions and their activities come from a portion of the value-added tax charged consumers (similar to Canadian sales tax) as well as import duties applied to goods entering the EC. Compared to the national governments, the EC as an organization is relatively small. Its budget amounts to less than 3 per cent of the combined national budgets of its member states.

EC External Trade

The Treaty of Rome stipulates that the European Community should represent its members on matters of trade with other countries. Thus, EC officials (along with member state officials) attend meetings of the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Co-operation and Development (OECD) and speak on behalf of member states, when trade-related issues are discussed.

Since 1973, manufactured products have travelled free of customs duties and restrictions under an agreement between the EC and the European Free Trade Association (EFTA) countries. EFTA has six members — Austria, Finland, Iceland, Norway, Sweden and Switzerland — and is the Community's largest trading partner. Agricultural and fish products have generally been excluded from the free trade provisions.

The EC has made special trade arrangements with many developing countries, as well, particularly former colonies of its member states. The countries of the Mediterranean (except Libya and Albania) receive duty-free access on most manufactured goods and some agricultural produce. Some 66 African, Caribbean and Pacific (ACP) countries are signatories to a series of conventions that permit them to export a wide range of goods to the Community duty-free. Trade relations with advanced industrial countries are usually governed by the General Agreement on Tariffs and Trade.

EC Common Policies Affecting Trade

Of all the European Community's common policies, the most contentious was also among the first to be established: the common agricultural policy (CAP). The aims of the policy are to increase agricultural productivity, ensure fair standards of living for farmers, stabilize markets, guarantee supply, and ensure reasonable prices to consumers. The CAP has in some ways been very successful. For instance, the EC is virtually self-sufficient. However, the cost has been enormous. Almost two-thirds of the EC's general budget goes toward farm price guarantees.

The effects of the common agricultural policy have reached the European Community's trading partners as well. The Canadian government, along with the governments of other major agricultural producers, has long lobbied to reduce or eliminate these guarantees that unfairly subsidize European farmers and lead to excess production. Indeed, this subsidy-induced artificial production has reduced traditional Canadian export markets, both in the EC and in third countries. The EC has shown some interest in reducing the scope of the common agricultural policy, but progress remains slow.

Another area where the EC has adopted a common policy is in fisheries. The common fisheries policy (CFP) — sometimes referred to as "Blue Europe" — embodies community-wide regulations affecting the conservation and management of fish stocks; the structure and modernization of the EC fishing industry; the organization of the market for fisheries products, including import tariffs, quotas and reference prices; and the negotiation of fisheries treaties with these countries. Like Canada, the EC is a member of the Northwest Atlantic Fisheries Organization (NAFO), which sets catch quotas in the North Atlantic region off Canada's east coast. However, since Spain and Portugal joined the EC in 1986 — and brought their huge fishing fleets under EC jurisdiction — the EC has not adhered to the NAFO conservation regime. Both Canada and the EC agree on the principles of fisheries conservation and rational management, but have not been able to agree on how to put these principles into practice.

Canada–EC Economic and Science and Technology Co-operation

Though agriculture and fisheries are two areas where Canada and the EC have had differences, overall economic relations are very healthy. In fact, Canada is the only non-EFTA industrialized nation to have signed a framework agreement with the European Community on commercial and economic co-operation. The agreement, signed in 1976, encourages industrial co-operation in investment, joint ventures,

consortia, licensing and technology transfer, as well as scientific co-operation.

Under the agreement, a joint co-operation committee meets annually to review the various activities already in motion and those envisaged for the future. The agreement is likely to take on added importance as the Community moves to unify its market, allowing Canada a unique avenue for discussing economic concerns and participating in economic developments in Europe.

The 1976 framework agreement has made possible science and technology (S&T) co-operation between Canada and the EC. As part of this on-going co-operation, memoranda of understanding have been signed in the following areas:

- radioactive waste management (1980)
- wastewater treatment (1983)
- medical and public health research (1984)
- thermonuclear fusion (1986)
- raw materials (1987)
- health and environmental effects of radiation (1987)
- thermonuclear fusion (1988) within the International Thermonuclear Experimental Reactor (ITER) project

These memoranda make possible the exchange of scientific and technical information and of researchers — for example, Canada is very active in the EC fusion program and is considering an increased participation. EC fusion research teams already have Canadian members, and contracts have been awarded to Canadian firms because of their expertise.

Canada is exploring the possibility of formalizing its S&T co-operation with the European Community through the negotiation of a separate framework S&T agreement that would give Canadian interests access to a number of research fields, including the environment, non-nuclear energy sources, biotechnology, telecommunications and information technologies, and advanced materials research.

What is Europe 1992

"Europe 1992," or the Single Market Program, aims to sweep away the remaining restrictions on the movement of goods, capital, services and workers to make the EC a truly unified common market. The ambitious undertaking began with a 1985 White Paper that outlined close to 300 pieces of legislation that would need to be passed to completely liberalize trade. These included measures to reduce (1) physical barriers (border customs and immigration controls), (2) technical barriers (technical standards, health and safety requirements, lack of mobility for workers and professionals, etc.), and (3) fiscal barriers, such as different rates of value-added tax in different member states.

As an example of how removing barriers is resulting in increased efficiency, in 1988 a "Single Administrative Document" was introduced to replace the up to 70 forms previously required by truck drivers crossing internal EC borders.

A report by the EC predicts that, provided the entire Single Market Program is implemented, the benefits could mean an incremental of 5 per cent increase in GDP and two to five million new jobs over a five-year period.

Europe 1992 is an extremely comprehensive program that touches upon almost all aspects of day-to-day EC commercial life. Some areas where the Single Market Program will have an impact are described below:

Technical standards. Europe 1992 calls for the "mutual recognition" of manufactured products. In other words, a product approved for sale in one member state can also be sold in all other member states without their subsequent approval. The EC is also drafting minimum essential standards required to protect public health and safety, and the environment. Included in the Single Market Program is the development of European standards in both telecommunications and information technology.

Foreign investment. Europe will continue to welcome foreign investment. Canadian companies are watching as the European Commission drafts a new European Company statute and as the Community pushes towards harmonizing various aspects of company law, initiatives likely to affect foreign acquisitions.

Science and technology development. Community-wide research and development programs are becoming more significant, serving not only to develop the sciences or technology itself, but also seeking to co-ordinate national research and development efforts. Key EC research and development programs (worth $10 billion over five years), are in enabling technologies (information technology, telecommunications, manufacturing technologies, biotechnologies, and advanced materials), energy (nuclear fusion and fission) and the environment.

Government procurement. Europe 1992 aims to open up the national tendering processes to companies in all EC member states, particularly in the telecommunications, water, energy and transport sectors.

Finance/banking. Progress towards liberalizing the financial and banking sectors could eventually lead to a European central bank and a common currency, though such a development would likely occur some years after 1992.

Environmental action. A number of measures under the Single Market Program directly relate to environmental concerns. Among these are proposed directives requiring environmental impact assessments for major investment projects, setting timetables for emission reductions for industrial plants and motor vehicles, and introducing civil liability for environmental damage.

Europe 1992 has quickened the pace and shaped the direction of structural changes already under way in European industry. These changes will lead to more national and cross-border mergers and acquisitions; more cross-border alliances in R&D, production and marketing; and a streamlining of production facilities on a European scale.

For Canada and Canadian business, Europe 1992 presents major challenges and opportunities. It will allow Canadian companies easier access to all EC member states but may require increased investment in European operations or alliances with European firms to fully take advantage of the new rules. It will open up new markets, such as in telecommunications, but it will also increase competition — in Europe, in third countries and in Canada's domestic market — from increasingly efficient European firms.

EC Social Policy

Traditionally, the European Community has had relatively little involvement in social policy compared to national governments, though a number of EC programs and funds complement national strategies and their impact is growing, particularly in the less developed parts of the EC. The Community's Structural Development Funds help to close the gap between rich regions and poor, by financing development programs, infrastructure development, restructuring of depressed regions (worker retraining, etc.) and industrial and services projects in poorer regions. EC funds are also provided for vocational training programs for migrant workers and their children.

While its social programs are important complements to national programs, the European Community also acts as a forum where national governments can agree upon common practices and standards to improve or protect the quality of life of Europeans. The EC has passed directives dealing with the protection of surface and underground water, quality standards for drinking water, atmospheric pollution, chemical manufacture and disposal, and other issues. Lists of permitted food additives and acceptable levels of pesticide residues have been agreed upon as have general principles regarding education and the rights of citizens, workers and women.

European Community involvement in social issues is growing and is seen by many as the logical extension of the economic and financial measures aimed at unifying the Community.

Charting an Ambitious Course

Since the early 1980s, the European Community has been actively involved in industrial research, and plans to spend about $10 billion over five years on research and development (R&D). This concerted effort illustrates the new impetus with which the member states of the European Community are working together to remain competitive in an increasingly competitive world. That ethic of co-operation is also behind Europe 1992, the plan to remove some 300 non-tariff trade barriers. But renewed R&D efforts and Europe 1992 are just the latest steps in the European Community's evolution. Already the Council of Ministers is discussing the next step — how economic and monetary union might be achieved.

The achievements of the European Community in its first three decades are substantial. Liberalized trade has increased European living standards and promises to continue to do so. But perhaps more importantly, the institutions of the European Community have provided a forum for dialogue and co-operation among nations that have seen their share of war in the past. Economic integration has indeed proven to be a most effective mediator.

This publication is part of a series dealing with various aspects of Canadian foreign policy. Additional copies can be obtained from the Domestic Communications Division (BFC), External Affairs and International Trade Canada, 125 Sussex Drive, Ottawa K1A 0G2.

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